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## HIGHLIGHTS

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### Embargo to Continue Reagan, Haig Say

President Reagan and Secretary of State Alexander M. Haig Jr. both say the embargo of agricultural exports to the Soviet Union will not be lifted until there are some improvements in relations between the superpowers, particularly regarding the crisis in Poland. The statements appear in different March 29 interviews. (Page A-4)

### Trade Illuminaries Crowd Annual Chicago Conference

International trade experts, both in and out of government, gather in Chicago during the annual World Trade Conference to discuss the pros and cons of the Reagan Administration's efforts to cut inflation at home and spur exports. Slashing the Eximbank's budget evolves as main target of criticism. (Pages C-1, C-4)

### Trading Company Bill Hits First Snag in House

Senior members of the House and Senate judiciary committees are not anxious to see a major function of the Department of Justice -- exempting certain firms from U.S. antitrust laws -- be shifted to the Commerce Department. A House panel hears arguments for the move from Commerce Secretary Malcolm Baldrige and the Senate committee chairman introduces a bill to make it easier to export under the old procedure. (Page C-2)

### Early Enforcement Conclusions Outlined

Some of the preliminary conclusions of the review of export control enforcement begun last year are outlined during a partially closed House hearing on enforcement issues. The House subcommittee holding the hearing wants to see the study, which is currently in the possession of the National Security Council. (Page A-1)

Deputy Assistant Secretary of Commerce for Export Administration Eric Hirschhorn is expected to be replaced by Bohdan Denysyk of EG&G Washington Analytical Services Center Inc., a consulting firm, in the near future, sources report. (Page A-4)

An order temporarily denying export privileges is issued against several individuals and companies in the United States and Europe in connection with an ongoing Compliance Division investigation. (Page A-5)

Selected Commerce Department tables on February trade balance ..... M-1

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## U.S. CONTROLS

### EXPORT CONTROLS: EARLY WORKING GROUP CONCLUSIONS OUTLINED AT HOUSE HEARING

Some of the preliminary conclusions of the review of export control enforcement begun last year were outlined during a partially closed House hearing on enforcement issues March 26.

The House Foreign Affairs Subcommittee on Economic Policy and Trade, which held the hearing, wants to obtain a copy of the review, which is currently being held by the National Security Council.

Former President Carter last year directed the Commerce and Justice Departments to strengthen enforcement of federal export control laws concerning certain communist countries. An interagency working group, was charged with examining ways to improve compliance with export control laws (323 ITEX A-1), the report discussed at last week's hearing.

#### Initial Work Complete

Associate Deputy Attorney General Robert L. Keuch, who chairs the working group, said the panel's initial work is now completed and that a report has gone forward to the NSC's Special Coordinating Committee.

The working group has tentatively concluded, Keuch said, that exports are controlled mainly by three laws administered by three agencies -- the Atomic Energy Act by the Nuclear Regulatory Commission, the Export Administration Act by the Commerce Department, and the Arms Export Control Act by the State Department; seven departments or agencies have investigative or intelligence interests in the export control process; there is a large number of other working groups with interests in aspects of export control -- including the Economic Defense Advisory Committee (EDAC) I, EDAC II, the NSC Technology Transfer Group, and the Inter-departmental Committee on Internal Security; and there is sufficient dilution or dispersion of authority that much needs to be done to strengthen government efforts.

A number of steps have been taken to improve the situation, he said, including direction by the Federal Bureau of Investigation to its Special Agents in Charge (heads of FBI field offices) and legal attaches that they should move to make sure possible export control violations discovered through intelligence are reported to the FBI and that cases coming under Commerce's jurisdiction are reported to Commerce.

A September 11, 1980 Justice memorandum to U.S. Attorneys noted the establishment of the working group and directed U.S. Attorneys to review their procedures "to insure that export control violations are aggressively investigated and prosecuted. (Of particular concern are shipments of sophisticated technology, goods, and data to communist countries.)" The memorandum went on to say that if assistance was needed it would be provided.

In addition, Keuch said, Justice has assigned a senior attorney to work with Commerce and that the Director of Central Intelligence (the President's primary foreign intelligence advisor, a post filled by the head of the Central Intelligence Agency) "has reminded the intelligence community of its obligation. . . to report possible violations of export control statutes. . ."

U. S. CONTROLS

Other actions Keuch mentioned included the holding of a seminar for the export control community to review ways to request new foreign intelligence, the establishment of a Commerce Department contact point for advice on laws and regulations related to export controls and the initiation of a pilot project by Commerce and the CIA "to simplify compliance with statutory restrictions on disclosure of export licensing data."

The Internal Security Section of Justice's Criminal Division has "assigned the highest priority" to national security cases coming under the three export control laws and Justice has assigned a senior executive service attorney "to work closely with Commerce to develop investigative programs specifically designed to ferret out violations of export laws, and it is committed to providing the necessary resources to prosecute any known violators it discovers in the process," he said.

Although Keuch described his statement as a fair overview of the unclassified portions of the report, the subcommittee is interested in getting the report itself for a number of reasons, including the possibility it may have suggestions of its own and because a number of members are concerned about coordination between government agencies involved in export control matters.

Two of the witnesses in the public portion of the hearing referred to increased export controls violations.

Office of Export Administration Director William V. Skidmore told the panel that Commerce has noticed increased foreign policy export controls violations recently, adding, "We have no analysis or evidence as to why this is occurring."

Increased Controls Violations

He also said while discussing illegal reexports that with advances in technology, some controlled commodities are becoming easier to transport illegally and that diverters "are using more sophisticated means of diversion such as establishing a number of 'front' companies and individuals to move their illegal wares through several countries to proscribed destinations.

"We have no evidence that the number of violators has increased substantially. Recently, however, we have become more aware of, and we are quite concerned about the scope and magnitude of diversions by those engaging in such illegal activity," he said, adding that this awareness is largely due to efforts to enhance enforcement and to improve coordination with the intelligence community.

Acting Customs Commissioner William T. Archey said in written testimony that in the last several years there have been "significant increase(s) in the magnitude and complexity of known diversions and attempted diversions of critical technology to areas where the political philosophy is contrary to United States interests."

The subcommittee went into closed session to hear testimony from the CIA and FBI and discuss classified matters, and it was reported that the intelligence community's tone was that there has been an increase in incidents of diversion and clandestine efforts to obtain controlled items, especially semiconductors.

Deputy Assistant Secretary of State for Economic and Business Affairs Harry Kopp said State has recently placed considerable emphasis on strengthening cooperation between COCOM and cooperating nations and has tried to get these other countries to strengthen their own compliance efforts.

At U.S. behest, he said, COCOM's Subcommittee on Export Controls met twice in 1980 study cooperative aspects of national compliance activities and the subcommittee is expected to meet again late in the spring. Kopp said the United States will soon be submitting proposals to the subcommittee on improving mutual enforcement efforts and protection of national security items between COCOM members and other countries.

Kopp said COCOM allies and other friendly countries "have generally been very cooperative" with U.S. investigations of suspected control violations but said some have expressed concern over U.S. use of embassy personnel to question foreign firms directly or to serve judicial or quasi-judicial papers on them, maintaining such actions violate their own judicial sovereignty.

"In some cases legislation originally passed to insulate local firms from U.S. antitrust inquiries is now being invoked to inhibit direct approaches on export control compliance matters. These foreign governments have suggested that we should channel such inquiries through local government officials and rely on existing formal agreements for process service," he said.

"In response," Kopp said, "we have maintained that direct access to foreign firms engaged in the acquisition or shipment of U.S.-origin items is part of an embassy's normal commercial function and is analogous to activities regularly assigned by all of our countries to embassy commercial personnel."

#### East European Control of Companies

Skidmore also discussed control of technology transfer through acquisition of U.S. technology companies, in particular by East European interests. An NSC study completed in 1980 indicated U.S. firms are being acquired by governments of countries subject to export controls (323 ITEX A-1).

"There is some potential for domestic acquisition and subsequent illegal transfer of technology by foreign-owned entities controlled by governments or citizens of countries to which exports are restricted for national security purposes. We are now exploring ways to control this activity through our regulations," Skidmore said.

#### Aircraft Engine Diversions

Another matter which came up in connection with the hearings is the investigation of possible illegal exports of aircraft engines to Libya.

The State Department confirmed last month that at least one U.S.-manufactured aircraft has been exported to Libya without the required license and a U.S. official said at the time that Libya periodically tries to obtain U.S.-made planes and that there are numerous reports of purchase attempts by Tripoli (346 ITEX A-5).

Archev said in a letter to Subcommittee Chairman Jonathan B. Bingham (D-NY) in response to staff inquiries about investigations of illegal C-130 exports to Libya that no such investigations have been made by Customs.

"However," he said, "in 1978, we did have an investigation involving an allegation of illegal exports of C-130 aircraft engines to Libya. In July of 1978 the Department of State requested Customs to investigate an alleged diversion to Libya of ten C-130 aircraft engines valued at \$2,525,000. The engines were exported under Department of State license by a U.S. corporation to a foreign intermediate consignee in London. The ultimate consignee was listed as a company in Jordan. This investigation is still under way."